



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
OFFICE OF FINANCIAL AND INSURANCE REGULATION  
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH  
STANLEY "SKIP" PRUSS, DIRECTOR

KEN ROSS  
COMMISSIONER

## BILL ANALYSIS

**BILL NUMBER:** House Bill 4429, as introduced  
**TOPIC:** Expand board membership of the Michigan Catastrophic Claims Association (MCCA)  
**SPONSOR:** Representative Richard LeBlanc  
**CO-SPONSORS:** Representatives Doug Bennett, Richard Hammel, Shanelle Jackson, and Vincent Gregory  
**COMMITTEE:** House Committee on Insurance  
**Analysis Done:** March 11, 2009

### POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation.

### PROBLEM/BACKGROUND

The Michigan Catastrophic Claims Association (MCCA) was established in 1978 and is a critical part of the no-fault automobile insurance system. Because there is no limit on the amount of coverage for personal injuries under a Michigan no-fault policy, the liability for this coverage would be too large for most individual insurers to bear. When a liability is larger than an insurer can afford to accept on its own, the insurer transfers part of the risk to other insurers through a mechanism known as reinsurance -- insurance for an insurer.

Since the private market was not able to provide reinsurance for unlimited exposures, the MCCA was created to act as the reinsurer to companies writing auto insurance in Michigan. All auto insurance companies licensed in Michigan are members of the MCCA. As of July 1, 2008, each insurance company will pay the first \$440,000 of any catastrophic claim and be reimbursed by the MCCA for the rest. This retention level will gradually be increased until it reaches \$500,000, requiring each insurance company to assume more of the risk. As the threshold increases, each insurance company assumes more of the risk for catastrophic claims. Any amounts over the threshold are paid by the MCCA and spread across all member companies in the form of the annual MCCA assessment.

Each year, the MCCA board of directors analyzes the amount needed to cover the lifetime claims of all people catastrophically injured in car accidents. This analysis includes an actuarial review of the MCCA's investment returns, surplus and liabilities, including medical cost inflation. This analysis yields an amount needed to pay those lifetime claims and may be adjusted to reflect excesses or deficiencies in earlier assessments. A per vehicle assessment is set for the year based on this amount and each insurance company writing auto insurance is then assessed by the MCCA for each vehicle it insures. In this way, the MCCA acts as an insurer whose policyholders are Michigan automobile insurance companies. Insurance companies may pass the assessment on through the premium charged to policyholders.

This MCCA assessment has varied considerably over the years. In 1995, when the MCCA determined that its surplus was such that it could and should be reduced, it began applying a credit to the annual assessment amount. From 1995-2001 the MCCA returned approximately \$267 per insured vehicle, in addition to a one-time lump sum payment of \$180 in 1998 (\$447 total per vehicle). Due to decreased investment returns and increasing medical costs, the MCCA's surplus is currently underfunded. For the period from July 1, 2008 through June 30, 2009 the MCCA Board will assess \$104.58 per vehicle, which includes \$96.06 in pure premium (the actual costs for current year expenses) and an \$8.32 surplus/deficit adjustment (which reduces the shortfall in discounted reserves held for future obligations) and a \$.20 administration fee.

### **DESCRIPTION OF BILL**

The proposed legislation would expand the current MCCA board of directors from 5 to 9 members, with one of the additional members representing insurance agents and three of the additional members representing the general public.

### **SUMMARY OF ARGUMENTS**

#### **Pro**

Because the MCCA is a legislatively created entity fulfilling an important public purpose, the deliberations of its board are of interest to all Michigan citizens. Having public members would put Michigan citizens at the table when the MCCA makes decisions affecting the rates Michigan drivers pay.

Adding voting public, non-industry members and an insurance agent representative to the MCCA board would provide a degree of public oversight of MCCA operations, and would heighten public accountability. It would also provide a critical consumer perspective to MCCA deliberations and decision making.

## **Con**

The MCCA board is comprised of high level company officials who have extensive knowledge of the no-fault system and whose interest is in ensuring that the current no-fault system is adequately funded to pay for Michigan's generous no-fault benefits. The appointment of public member may further politicize MCCA operations.

## **FISCAL/ECONOMIC IMPACT**

OFIR has identified the following revenue or budgetary implications in the bill as follows:

- (a) To the Office of Financial and Insurance Regulation: None known.

Budgetary:

Revenue:

Comments:

- (b) To the Department of Labor & Economic Growth: None known.

Budgetary:

Revenue:

Comments:

- (c) To the State of Michigan: None known.

Budgetary:

Revenue:

Comments:

- (d) To Local Governments within this State: None known.

Comments:

## **OTHER STATE DEPARTMENTS**

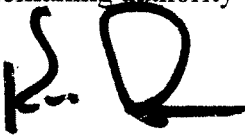
None known.

**ANY OTHER PERTINENT INFORMATION**

This proposed legislation is similar to legislation introduced in previous legislative sessions.

**ADMINISTRATIVE RULES IMPACT**

The proposed legislation would amend the Michigan Insurance Code. OFIR has general rulemaking authority under the Insurance Code, 1956 PA 218.

A handwritten signature in black ink, appearing to be 'K. Ross'.

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Ken Ross  
Commissioner

3-17-09

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Date